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SUBJECT: NICARAGUA: OPIC CEO MOSBACHER PROMOTES FUNDS FOR
THE CAFTA REGION

1. (U) Summary. Overseas Private Investment Corporation (OPIC) President and Chief Executive Officer Robert Mosbacher, Jr. visited Managua on October 18 to announce five OPIC-sponsored investment funds and lending programs available for Nicaragua. In a day-long series of high-level meetings and events, CEO Mosbacher signed documents related to the funds in a ceremony at the Presidency, met with President Enrique Bolanos, hosted roundtables with economic ministers as well as for captains of industry, and addressed a luncheon for members of the banking community, housing, construction, and energy sectors. At the end of the day, the Ambassador hosted a well-attended reception in his honor. In his remarks at the signing ceremony, President Bolanos emphasized the importance of the choice facing Nicaraguan voters on November 5, and urged them to embrace a modern future. Luncheon and roundtable discussions centered on low-income housing and finance for small and medium-sized enterprises. Press coverage of CEO Mosbacher's visit was very positive. End Summary.

Meeting with President Bolanos

2. (U) Accompanied by the Ambassador, CEO Mosbacher met with President Bolanos, Minister of Foreign Affairs Norman Caldera, Minister of Trade and Industry Alejandro Arguello, Minister of Agriculture and Forestry Mario Salvo, and Central Bank President Mario Arana. Bolanos highlighted the need for Nicaragua to build a strong middle class and the importance of home ownership. &If they own property,8 Bolanos commented, &they will protect it.8 Arana noted that the housing sector was one of the fastest growing in Nicaragua, but that construction had targeted the middle and upper classes. The challenge, he thought, was to reach into the lower classes, where the demand was strongest and untapped. CEO Mosbacher explained that OPIC-supported funds targeted low-income earners, potential homeowners looking at houses in the \$7,000-\$20,000 range. Caldera suggested that a way be found to use personal remittances to help pay mortgages on family homes. CEO Mosbacher responded that OPIC had been looking into that possibility with Western Union. Minister of Trade and Industry Arguello said that his ministry was trying to promote housing near free trade zones. CEO Mosbacher responded that OPIC had participated in such projects in the past, as well as low income housing for workers near tourist developments. Bolanos spent some time explaining his recently launched initiative to build a canal to rival the one in Panama (septel), a potentially massive undertaking. He also mentioned that the government was creating one-stop shops to deliver multiple public services to investors at one office.

Signing Ceremony

13. (U) At the signing ceremony at the Presidency and before members of the press, CEO Mosbacher and President Bolanos addressed invited guests. In his remarks, CEO Mosbacher placed OPIC activities in Nicaragua within the context of the Central American Free Trade Agreement (CAFTA) with the United States, emphasizing the central role of investment in fostering economic growth and development. He announced new OPIC investment and loan funds for Nicaragua to support private sector initiatives in energy, housing, and small enterprise. Among them were Latin Power II (an investment fund for medium-sized power projects), Paladin Realty Latin America Mortgage Finance and Paladin Realty Latin America Investors II (investment funds targeting construction of and long-term mortgages for low and middle-income housing), loans to Bancentro to support low and middle-income housing development, and additional funding for Global Partnerships to support microfinance projects. CEO Mosbacher signed documents related to these funds in the presence of President Bolanos and the local press.

14. (U) President Bolanos used the backdrop of the ceremony to talk about the elections, explaining that the choice Nicaraguans faced was whether to embrace a modern future or return to an impoverished past. Bolanos said that Nicaraguans knew that without investment, there could be no production. Without production, there could be no money for schools, roads, and medicine. He stressed that OPIC funds targeted the private sector, reminding his audience that governments did not produce development, rather development was the sum total of many individual efforts. Bolanos thanked CEO Mosbacher for the work of OPIC, which he believed would attract significant investment for the benefit of all Nicaraguans.

Bankers, Luncheon

15. (U) CEO Mosbacher went from there to a working lunch with members of the banking, construction, and energy sectors. In his remarks, CEO Mosbacher outlined OPIC's regional and bilateral programs in housing, energy, and micro-finance as examples of strong USG commitment to Nicaragua and to the CAFTA region. He emphasized housing and microfinance as potential engines of growth for Nicaragua. The American Chamber of Commerce and the Housing Institute of Nicaragua co-hosted the event, which was sponsored by Bancentro and featured an address by Bancentro President Roberto Zamora. Zamora focused his remarks on the \$30 million in OPIC loans to Bancentro that were designed to facilitate long-term, fixed-rate mortgage lending in Nicaragua. Attendees demonstrated a keen interest in OPIC funds, asking about the timing, nature, and availability of programs.

Captains of Industry

16. (U) CEO Mosbacher hosted a 75-minute roundtable with high-level representatives of 14 of the largest businesses and business organizations in Nicaragua, spanning the agricultural, manufacturing, distribution, construction, and financial sectors. Discussion ranged from infrastructure limitations to the lack of a mature financial market in Nicaragua. Participants strongly supported creating a secondary market for securitized mortgages. CEO Mosbacher challenged industry to be creative in the projects they submitted for OPIC-sponsored funding, to include, for example, the securitization of mortgages.

17. (U) Roundtable participants acknowledged the important role that small and medium-sized enterprises (SMEs) could play as an engine of economic growth, but lacked ideas on how to support them. CEO Mosbacher reminded the group that while there was a role for the government, the driver for energizing SMEs and the economy had to be the private sector. CEO Mosbacher placed particular focus on the high cost of microfinance, which he noted was currently the only real credit available to most SMEs. He suggested the bankers

might consider creating loan packages with longer time horizons and grace periods as a way to make themselves more attractive to this important sector.

Economic Cabinet

18. (U) The issue of how to extend useful and effective credit to SMEs dominated the roundtable discussion with members of Economic Cabinet. Attendees included the Ministers of Finance, Trade and Industry, and Agriculture, as well as the President of the Central Bank, the Executive Director of ProNicaragua (Nicaragua's investment promotion agency), and the Technical Secretary to the President. CEO Mosbacher posited that the government could play a much stronger role in helping to bring SMEs into the formal sector. In a statement echoed by ProNicaragua Executive Director Juan Carlos Pereira, CEO Mosbacher said that while the number of days needed to incorporate a business had decreased in Nicaragua, the cost of doing business remained high. For SMEs, accessing formal credit involved a paper intensive and convoluted process. Banks needed to find ways to work with SMEs, a more time consuming group of customers than traditional clientele. Before the SME market could take off, suggested CEO Mosbacher, Nicaragua needed one or two full-service commercial banks to take the plunge to show that SME lending was profitable. OPIC stood ready to support this effort by providing guarantees on loan portfolios through existing framework agreements with U.S. banks.

19. (U) Central Bank President Mario Arana and Technical Secretary to the Presidency Alvaro Montalvan stated that by December, the Government of Nicaragua hoped to have a proposal for an SME credit rating system that derived credit history data from existing microfinance institutions. Such credit information would help banks move into SME lending. Minister of Finance Mario Flores added that there was a bill before the National Assembly designed to bring microfinance institutions under the supervision of the banking regulator, thus making them partners in the creation of credit histories for SME borrowers and facilitating the design of low cost loan packages for SMEs. Minister of Trade and Industry Alejandro Arguello and ProNicaragua's Juan Carlos Pereira said that the GON wanted to help SMEs adopt standard accounting methods and formulate business plans so that SMEs could approach the formal banking sector. CEO Mosbacher stressed that the government needed to push the larger players in the Nicaraguan economy to reach out to SMEs with injections of start-up capital and support.

Comment

110. (U) CEO Mosbacher's visit was well received. The visit was distinctive in the high-level attention and participation that it drew. Leading newspapers La Prensa and El Nuevo Diario ran prominent articles in their business sections the following day. The Presidency's website highlighted the signing ceremony along with President Bolanos' speech. All major television and radio stations covered the event and some carried it live. The Ambassador's reception at the end of the day gave all participants the opportunity to follow up on ideas presented during the day's discussion. On the whole, we term the visit &very successful.

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